

**REPORT OF THE AUDIT OF THE
MCCRACKEN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2008**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MCCRACKEN COUNTY FISCAL COURT

June 30, 2008

The Auditor of Public Accounts has completed the audit of the McCracken County Fiscal Court for fiscal year ended June 30, 2008. We have issued an unqualified opinion on the governmental activities, each major fund, and aggregate remaining fund information of McCracken County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$46,680,468 as of June 30, 2008. The fiscal court had unrestricted net assets of \$8,945,711 as of June 30, 2008 and total debt principal of \$11,375,000 with \$605,000 due within the next year.

Report Comments:

- 2008-01** Internal Controls Over Expenditures Should Be Strengthened
- 2008-02** Expenditures Should Be Made In Accordance With The County's Procurement Policy
- 2008-03** McCracken County Fiscal Court Should Strengthen Internal Controls Over The Financial Reporting Of Capital Assets And Infrastructure
- 2008-04** The McCracken County Detention Center Had A Lack Of Segregation Of Duties Over Jail Commissary Accounting Functions
- 2008-05** Internal Controls Over Jail Receipts Should Be Strengthened
- 2008-06** Expense Allowances Are Prohibited By Statute

Deposits:

As of June 30, 2008, the fiscal court's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Van Newberry, McCracken County Judge/Executive

Members of the McCracken County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of McCracken County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the McCracken County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, McCracken County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of McCracken County, Kentucky, as of June 30, 2008, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting.

As discussed in Notes 1 and 10 to the financial statements, McCracken County changed its basis of accounting in 2008 from generally accepted accounting principles (GAAP) to the modified cash basis of accounting. Under GAAP, at the government-wide level, all assets and liabilities are recognized and all revenues are recognized when earned and expenses are recognized when incurred. Under GAAP, at the fund level, revenues are recognized when measurable and available and liabilities are recognized when expected to be paid within a certain period of time after year end. Under the modified cash basis, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, except for depreciation expense. Revenues are recognized when received and expenditures are recognized when paid. The change in accounting principle is reflected in beginning balances.



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The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise McCracken County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 2, 2009, on our consideration of McCracken County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the comments and recommendations, included herein, which discusses the following report comments:

- 2008-01** Internal Controls Over Expenditures Should Be Strengthened
- 2008-02** Expenditures Should Be Made In Accordance With The County's Procurement Policy
- 2008-03** McCracken County Fiscal Court Should Strengthen Internal Controls Over The Financial Reporting Of Capital Assets And Infrastructure
- 2008-04** The McCracken County Detention Center Had A Lack Of Segregation Of Duties Over Jail Commissary Accounting Functions
- 2008-05** Internal Controls Over Jail Receipts Should Be Strengthened
- 2008-06** Expense Allowances Are Prohibited By Statute

Respectfully submitted,



Crit Luallen

Auditor of Public Accountants

June 2, 2009

MCCRACKEN COUNTY OFFICIALS

For The Year Ended June 30, 2008

Fiscal Court Members:

Van Newberry	County Judge/Executive
Jerry Beyer	Commissioner
Ronnie Freeman	Commissioner
Zana Renfro	Commissioner

Other Elected Officials:

Dan Boaz	County Attorney
Bill Adams	Jailer
Jeff Jerrell	County Clerk
Glenda Ransom	Circuit Court Clerk
Jon Hayden	Sheriff
Nancy Bock	Property Valuation Administrator
Dan Simms	Coroner

Appointed Personnel:

Doug Harnice	Deputy Judge/Executive
Angie Brown	County Treasurer
Cynthia Spears	Finance Officer
Perry Mason	Road Supervisor
Larenda Ferrell	Jail Administrative Assistant

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MCCRACKEN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

MCCRACKEN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 8,224,348
Total Current Assets	<u>8,224,348</u>
Noncurrent Assets:	
Notes Receivable	920,000
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	1,137,482
Buildings	15,729,043
Vehicles and Equipment	2,342,029
Infrastructure	<u>29,702,566</u>
Total Noncurrent Assets	<u>49,831,120</u>
Total Assets	<u>58,055,468</u>
LIABILITIES	
Current Liabilities:	
Financing Obligations	55,000
Notes Payable	230,000
Bonds Payable	<u>320,000</u>
Total Current Liabilities	<u>605,000</u>
Noncurrent Liabilities:	
Financing Obligations	245,000
Notes Payable	5,740,000
Bonds Payable	<u>4,785,000</u>
Total Noncurrent Liabilities	<u>10,770,000</u>
Total Liabilities	<u>11,375,000</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	37,536,120
Restricted For:	
Debt Service	198,637
Unrestricted	<u>8,945,711</u>
Total Net Assets	<u>\$ 46,680,468</u>

The accompanying notes are an integral part of the financial statements.

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MCCRACKEN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

MCCRACKEN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 10,033,716	\$ 686,121	\$ 1,986,815	
Protection to Persons and Property	5,882,125	1,956,057	582,988	245,457
General Health and Sanitation	258,951		89,174	279
Social Services	1,248,112		756,772	
Recreation and Culture	1,642,691	25,093		
Roads	4,085,561		1,453,072	
Bus Services	62,000			
Debt Service	312,984			
Capital Projects	139,672			
Total Governmental Activities	23,665,812	2,667,271	4,868,821	245,736
Total Primary Government	\$ 23,665,812	\$ 2,667,271	\$ 4,868,821	\$ 245,736

General Revenues:

Taxes:

Real Property Taxes

Motor Vehicle Taxes

Bank Franchise Taxes

Transient Room Taxes

Occupational Tax

Other Taxes

In Lieu of Tax Payments

Excess Fees

Miscellaneous Revenues

Accrued Interest Received

Note Payment Made By Third Party

Gain on Disposal of Capital Assets

Transfer In

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

MCCRACKEN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

Net (Expenses) Revenues
and Changes in Net Assets
Primary Government

Governmental
Activities

\$	(7,360,780)
	(3,097,623)
	(169,498)
	(491,340)
	(1,617,598)
	(2,632,489)
	(62,000)
	(312,984)
	(139,672)
	(15,883,984)
	(15,883,984)

	3,017,628
	473,484
	224,205
	1,557,615
	6,712,386
	427,339
	1,020,991
	397,371
	969,052
	268,786
	43,779
	32,391
	137,055
	15,282,082
	(601,902)
	47,282,370
\$	46,680,468

The accompanying notes are an integral part of the financial statements.

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MCCRACKEN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

MCCRACKEN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2008

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Sheriff Fund</u>
ASSETS				
Cash and Cash Equivalents	\$ 7,809,770	\$	\$	\$
Total Assets	<u>7,809,770</u>	<u></u>	<u></u>	<u></u>
FUND BALANCES				
Reserved for:				
Encumbrances				
Unreserved:				
General Fund	7,809,770			
Special Revenue Funds				
Debt Service Fund				
Total Fund Balances	<u>\$ 7,809,770</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 8,224,348
Notes Receivable	920,000
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	125,162,449
Accumulated Depreciation	(76,251,329)
Long-term Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not Reported In The Funds.	
Financing Obligations	(300,000)
Notes Payable	(5,970,000)
Bonded Debt	<u>(5,105,000)</u>
Net Assets Of Governmental Activities	<u>\$ 46,680,468</u>

The accompanying notes are an integral part of the financial statements.

MCCRACKEN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2008
(Continued)

Debt Service Fund	Non- Major Funds	Total Governmental Funds
<u>\$ 41</u>	<u>\$ 414,537</u>	<u>\$ 8,224,348</u>
<u>41</u>	<u>414,537</u>	<u>8,224,348</u>
	14,635	14,635
		7,809,770
	201,306	201,306
41	198,596	198,637
<u>\$ 41</u>	<u>\$ 414,537</u>	<u>\$ 8,224,348</u>

The accompanying notes are an integral part of the financial statements.

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MCCRACKEN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

MCCRACKEN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
REVENUES			
Taxes	\$ 10,855,044	\$	\$
In Lieu Tax Payments	1,020,991		
Excess Fees	397,371		
Licenses and Permits	397,118		
Intergovernmental	1,180,949	1,453,072	2,157,622
Charges for Services	25,093		243,350
Miscellaneous	699,959	8,400	337,255
Interest	266,832		
Total Revenues	<u>14,843,357</u>	<u>1,461,472</u>	<u>2,738,227</u>
EXPENDITURES			
General Government	3,460,917		
Protection to Persons and Property	820,342		4,496,687
General Health and Sanitation	248,071		
Social Services	126,075		
Recreation and Culture	174,142		
Roads		2,008,619	
Bus Services	62,000		
Debt Service	388,486	177,595	375,471
Capital Projects			
Administration	2,141,517	369,720	1,385,475
Total Expenditures	<u>7,421,550</u>	<u>2,555,934</u>	<u>6,257,633</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>7,421,807</u>	<u>(1,094,462)</u>	<u>(3,519,406)</u>
Other Financing Sources (Uses)			
Transfers Out	(6,364,251)		
Transfers In	162,489	913,915	3,516,967
Total Other Financing Sources (Uses)	<u>(6,201,762)</u>	<u>913,915</u>	<u>3,516,967</u>
Net Change in Fund Balances	1,220,045	(180,547)	(2,439)
Fund Balances - Beginning (Restated)	6,589,725	180,547	2,439
Fund Balances - Ending	<u>\$ 7,809,770</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

MCCRACKEN COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2008
(Continued)

Sheriff Fund	Debt Service Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 1,557,615	\$ 12,412,659
			1,020,991
			397,371
			397,118
1,542,643		492,978	6,827,264
			268,443
6,378	242,336	43,220	1,337,548
	609	1,343	268,784
<u>1,549,021</u>	<u>242,945</u>	<u>2,095,156</u>	<u>22,930,178</u>
1,965,660			5,426,577
		159,884	5,476,913
			248,071
		1,130,666	1,256,741
		1,549,780	1,723,922
			2,008,619
			62,000
	513,481		1,455,033
		139,672	139,672
<u>1,046,197</u>			<u>4,942,909</u>
<u>3,011,857</u>	<u>513,481</u>	<u>2,980,002</u>	<u>22,740,457</u>
(1,462,836)	(270,536)	(884,846)	189,721
		(25,434)	(6,389,685)
<u>1,462,806</u>	<u>270,476</u>	<u>200,087</u>	<u>6,526,740</u>
<u>1,462,806</u>	<u>270,476</u>	<u>174,653</u>	<u>137,055</u>
(30)	(60)	(710,193)	326,776
30	101	1,124,730	7,897,572
<u>\$ 0</u>	<u>\$ 41</u>	<u>\$ 414,537</u>	<u>\$ 8,224,348</u>

The accompanying notes are an integral part of the financial statements.

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**MCCRACKEN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2008

MCCRACKEN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds	\$ 326,776
Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities, the Cost of Those Assets Are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.	
Capital Outlay	351,212
Depreciation Expense	(3,120,284)
Book Value of Disposed Assets	(434)
Payments received on notes receivable provide a current financial resource to Governmental Funds while reducing the receivable at the government-wide level. Therefore, the activity has been eliminated on the Statement of Activities.	
The Issuance of long-term receivables (Promissory Notes) reduces current financial resources of Governmental Funds. These transactions, however, have no effect on net assets	(46,667)
The forgiveness of long-term receivables (Promissory Note) has no effect on the current financial resources of Governmental Funds, however, it does decrease net assets.	600,000
Lease and Bond Principal Payments Are Expensed in the Governmental Funds as a use of Current Financial Resources.	(33,333)
Financing Obligations Principal Amount	788,328
Notes Payable Principal Amount	222,500
Bond Payments	310,000
Change in Net Assets of Governmental Activities	<u>\$ (601,902)</u>

The accompanying notes are an integral part of the financial statements.

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MCCRACKEN COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

MCCRACKEN COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2008

	Agency Funds		
	Jail Inmate Fund	Car Rental Tax Fund	Unclaimed Monies Fund
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 11,538	\$ 5,043	\$ 3,377
Total Assets	11,538	5,043	3,377
Liabilities			
Amounts Held In Custody For Others	11,538	5,043	3,377
Total Liabilities	11,538	5,043	3,377
Net Assets			
Total Net Assets	\$ 0	\$ 0	\$ 0

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of McCracken County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes no organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

McCracken County Public Properties Corporation

The Board of Directors of the McCracken County Public Properties Corporation is the McCracken County Fiscal Court. The Corporation was created solely for the benefit of the Fiscal Court per KRS 58.180 to act as an agent in the acquisition and financing of any public project and cannot be sued in its own name without recourse to McCracken County Fiscal Court. The Fiscal Court has access to the Corporation's resources, and is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the Fiscal Court. This component unit is blended within the financial statements of the County as the Debt Service Fund.

C. McCracken County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting McCracken County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These officials are not part of the McCracken County reporting entity.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. The County has no business-type activities. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and fiduciary funds. Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government and payments from other counties for housing prisoners. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Sheriff Fund - The primary purpose of this fund is to account for the expenses of the sheriff's department. The primary sources of revenue for this fund are reimbursements from the state and fees and fines collected by the sheriff's department.

Debt Service Fund - The primary purpose of this fund is to account for the accumulation of resources for, and the payment of general long-term debt principal and interest of the McCracken County Public Properties Corporation.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, State Grants Fund, Federal Grants Fund, Juvenile Justice Fund, Transient Room Tax Fund, and Jail Commissary Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Sheriff Fund, Local Government Economic Assistance Fund, State Grants Fund, Federal Grants Fund, Juvenile Justice Fund, and Jail Commissary Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Debt Service Fund and Transient Room Tax Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency funds are used to account for monies held for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus. The county's agency funds consist of the Jail Inmate Fund, Car Rental Tax Fund, and Unclaimed Monies Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 20,000	20
Buildings/Building Improvements	\$ 20,000	50
Machinery and Equipment	\$ 10,000	10
Vehicles	\$ 10,000	5
Office Equipment	\$ 10,000	5
Infrastructure	\$ 20,000	15-50

G. Long-term Obligations

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The State Local Finance Officer does not require formal budgets to be adopted for the Jail Canteen Fund.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organizations, Joint Ventures, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of McCracken County Fiscal Court: Paducah-McCracken County Convention Center and Visitors Bureau, McCracken County Extension District, Paducah-McCracken County Joint Sewer Agency, West McCracken Water/Sewer District, Paducah-McCracken County Senior Citizens Center, Hendron Fire District, Concord Fire Protection District, McCracken County Public Library, West McCracken Fire District, Hendron Water District, Lone Oak Fire District, and Reidland-Farley Fire District.

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Based upon these criteria, the following are considered to be joint ventures of the McCracken County Fiscal Court:

Paducah-McCracken County 911 – The County entered into an interlocal agreement with the City of Paducah, Kentucky in May of 1991 to administer 911 services for McCracken County, Kentucky. The County is billed monthly for its share of the excess operating costs over revenues, based on the ratio of services inside and outside the city limits. For fiscal year ended June 30, 2008, the County provided \$238,038 to Paducah-McCracken County 911.

McCracken and Paducah Geographic Information System – The County entered into an interlocal agreement with E911 and the City of Paducah, Kentucky in 2004 to share costs of the Geographic Information System operations. The County is billed monthly for its portion of the costs. For fiscal year ended June 30, 2008, the County paid \$20,638 to the McCracken and Paducah Geographic Information System.

Paducah-McCracken County Telecommunications/Information – The County entered into an interlocal agreement with the City of Paducah, Kentucky in May of 1997 to establish a computer network and phone system to be used by both the County and City governments. Fees are charged based on the number of telephone and computer connections utilized by the governments. For fiscal year ended June 30, 2008, the County paid \$33,066 to the Paducah-McCracken County Telecommunications/Information.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations, Joint Ventures, and Jointly Governed Organizations (Continued)

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility is a jointly governed organization. Based upon these criteria, the following are considered jointly governed organizations of McCracken County: Paducah-McCracken County Industrial Development Authority and Greater Paducah Economic Development Council.

Note 2. Deposits

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial Credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2008, all deposits were covered by FDIC insurance or a properly executed collateral agreement.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,137,482	\$	\$	\$ 1,137,482
Total Capital Assets Not Being Depreciated	1,137,482			1,137,482
Capital Assets, Being Depreciated:				
Buildings	30,625,651			30,625,651
Vehicles and Equipment	6,378,495	351,212	(441,417)	6,288,290
Infrastructure	87,111,026			87,111,026
Total Capital Assets Being Depreciated	124,115,172	351,212	(441,417)	124,024,967
Less Accumulated Depreciation For:				
Buildings	(14,437,763)	(458,845)		(14,896,608)
Vehicles and Equipment	(3,828,216)	(559,028)	440,983	(3,946,261)
Infrastructure	(55,306,049)	(2,102,411)		(57,408,460)
Total Accumulated Depreciation	(73,572,028)	(3,120,284)	440,983	(76,251,329)
Total Capital Assets, Being Depreciated, Net	50,543,144	(2,769,072)	(434)	47,773,638
Governmental Activities Capital Assets, Net	\$ 51,680,626	\$ (2,769,072)	\$ (434)	\$ 48,911,120

Depreciation expense was charged to functions of the government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 399,746
Protection to Persons and Property	423,612
General Health and Sanitation	10,880
Social Services	10,018
Recreation and Culture	53,769
Roads, Including Depreciation of General Infrastructure Assets	<u>2,222,259</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 3,120,284</u>

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 4. Long-term Debt

A. First Mortgage Revenue Refunding Bonds, Series 2004

On September 1, 2004, the County sold McCracken County, Kentucky Public Properties Corporation First Mortgage Revenue Refunding Bonds, (Courthouse Project), Series 2004 (the Bonds) through the McCracken County, Kentucky Public Properties Corporation. The Bonds originally totaled \$6,025,000 and the proceeds were used for the purpose of (i) refunding \$7,290,000 McCracken County Kentucky Public Properties Corporation Public Project Revenue Bonds (Court Facilities Project) and (ii) pay the costs of issuance of the Bonds, which are dated August 1, 2004, have interest rates of 3.00% to 4.75% and mature beginning in September, 2005 through September, 2026.

The Kentucky Administrative Office of the Courts (AOC) has agreed to pay a maximum of \$246,800 annually to the paying agent on behalf of the County as required by a Use and Sublease Agreement between the County and the AOC dated September 1, 2004

Under the terms of the lease agreement, the AOC has agreed to pay annually directly to the Paying Agent for the Bonds approximately 47% of the Net Debt Service, the stated Use Allowance Payment, subject to the constitutional restrictions limiting the commitment of state agencies to the then current biennial period; said amount to be applied only to the principal of and interest on the Bonds so long as the County renews the lease. Under the Lease, the Corporation has pledged and assigned all of its rights under the Lease Agreement to the Trustee in order to secure the Bonds.

The AOC with the execution of the Lease Agreement will have expressed its intention to pay the full Use Allowance Payment in each successive biennial budget period until September 1, 2026. In addition, the current policy of AOC provides for the continuation of one-half of the rental payment as long as AOC occupies said space in the Project, past the maturity of the Bonds. The AOC will covenant that it intends to request funding from the Kentucky General Assembly each biennium and to use the proceeds of such funding and/or its revenues from other sources to pay such Use Allowance Payment each year.

In addition to the Use Allowance Payment, certain expenses attributable to maintaining and operating the building for use by the AOC are paid to the County.

The County has previously defeased The McCracken County Public Properties Corporation Public Project Revenue Bonds, (Court Facilities Project), Series 1995 (prior bonds) by placing the proceeds of the new bonds in an irrevocable trust to provide for the future debt service payments on the prior bonds. In September 2006, the prior year bonds were called and the balance as of June 30, 2008 was \$0.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 4. Long-term Debt (Continued)

A. First Mortgage Revenue Refunding Bonds, Series 2004 (Continued)

Bonds began maturing in September 2005. Bond payments are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2009	\$ 320,000	\$ 193,972
2010	330,000	183,810
2011	335,000	173,004
2012	350,000	161,435
2013	365,000	148,922
2014-2018	1,745,000	530,618
2019-2023	955,000	273,469
2024-2027	705,000	53,701
Totals	<u>\$ 5,105,000</u>	<u>\$ 1,718,931</u>

B. Julian Carroll Convention Center and Four Rivers Center for the Performing Arts

On June 1, 2001, the County issued a note payable to the City of Paducah, Kentucky (City) in the amount of \$4,645,000. The note was authorized for the purpose of financing the County's contributions to the construction of additions and renovations to the Julian Carroll Convention Center and the construction of a new Four Rivers Center for the Performing Arts and for paying necessary expenses incidental to the Projects and the issuance of the City's General Obligation Bonds (the City's Bonds), Series 2001, dated June 1, 2001, in the principal amount of \$9,290,000. The note has interest rates of 3.5% to 5% and interest payments are to be made semi-annually beginning December 1, 2001. Principal payments are to be made annually on June 1 with final payment due June 1, 2026.

Under the provisions of KRS 91A.392, the County is entitled to levy and collect a transient room tax in the amount of 6% for the rent of rooms by motels, motor courts, hotels, inns and similar accommodation businesses for the benefit of the Paducah-McCracken County Tourist and Convention Commission (the Bureau) and the Paducah-McCracken County Convention Corporation (the Corporation). The County has entered into a certain Interlocal Cooperation Compact (the Compact) with the City, the Bureau, and the Corporation pursuant to KRS 65.210 through 65.300 (the Interlocal Cooperation Act). Under the terms of the Compact, the parties have agreed that 33 1/3% of the Room Tax (the Pledged Tax) shall be assigned to the City and pledged to the payment of the City's Bonds. In addition, the Compact provides that the difference between the annual principal and interest requirements of the City's Bonds and the pledged tax shall be borne equally by the County, the City and the Bureau. Therefore, the principal and interest payments due on the Note from the County to the City shall each year be subject to a credit in favor of the County equal to the total of (a) the Pledged Tax, plus (b) 33 1/3% of the Overage to be paid by the Bureau, plus (c) 33 1/3% of the Overage to be paid by the City.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 4. Long-term Debt (Continued)

B. Julian Carroll Convention Center and Four Rivers Center for the Performing Arts (Continued)

The future note payments shown below are the maximum that would be paid by the County in the event that the room tax levied were to be declared unconstitutional. The future payments are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2009	\$ 140,000	\$ 181,650
2010	145,000	176,050
2011	152,500	169,598
2012	160,000	162,735
2013	165,000	155,535
2014-2018	955,000	655,254
2019-2023	1,205,000	404,306
2024-2027	877,500	89,250
Totals	<u>\$ 3,800,000</u>	<u>\$ 1,994,378</u>

C. Speculative Building

On May 1, 2004, the County issued a note payable to the City of Paducah, Kentucky (City) in the amount of \$2,500,000. The note was authorized for the purpose of financing the County's contributions to the acquisition, construction and installation of an approximately 100,000 square foot building to be leased by the City and County to the Paducah McCracken Industrial Development Authority and the issuance of the City's General Obligation Public Project Bonds, Series 2004, dated June 1, 2004, in the principal amount of \$5,000,000. On June 1, 2004, the City of Paducah ("City") and County entered into a lease agreement with the Paducah McCracken County Industrial Development Authority. On September 1, 2004, the Paducah McCracken County Industrial Development Authority entered into an agreement with Infiniti Plastic Technologies, Inc. Infiniti shall be responsible for the payment of the monthly rent installments for the remainder of the Leasee term, which monthly rent installments shall commence on September 1, 2007. The monthly installments equal \$33,816. The note has interest rates of 2.25% to 6% and interest payments are to be made semi-annually beginning December 1, 2004. Principal payments are to be made annually on June 1 with the final payment due on June 1, 2024.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 4. Long-term Debt – Notes Payable (Continued)

C. Speculative Building (Continued)

The future payments are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2009	\$ 90,000	\$ 121,803
2010	92,500	117,752
2011	97,500	113,313
2012	102,500	108,437
2013	107,500	103,184
2014-2018	640,000	421,072
2019-2023	840,000	215,738
2024-2027	200,000	12,000
Totals	<u>\$ 2,170,000</u>	<u>\$ 1,213,299</u>

D. Riverport Development

On December 7, 2005, the fiscal court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program in the sum of \$400,000 at a 2.245% effective interest rate. The financing obligation is for the purpose of real property development in the Riverport area. The maturity date of the obligation is July 20, 2012. The balance of the obligation at June 30, 2008 was \$300,000. Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2009	\$ 55,000	\$ 9,679
2010	55,000	7,614
2011	60,000	5,374
2012	65,000	2,953
2013	65,000	232
Totals	<u>\$ 300,000</u>	<u>\$ 25,852</u>

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 4. Long-term Debt – Notes Payable (Continued)

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Refunding Bonds	\$ 5,415,000	\$	\$ 310,000	\$ 5,105,000	\$ 320,000
Notes Payable	6,192,500		222,500	5,970,000	230,000
Financing Obligations	<u>1,088,328</u>		<u>788,328</u>	<u>300,000</u>	<u>55,000</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 12,695,828</u>	<u>\$ 0</u>	<u>\$ 1,320,828</u>	<u>\$ 11,375,000</u>	<u>\$ 605,000</u>

Note 5. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$43,229 in interest on financing obligations and \$203,422 in interest on bonds.

Note 6. Note Receivables

A. Paducah-McCracken County Riverport Authority

On November 28, 2005, the City of Paducah and McCracken County entered into an Interlocal Cooperative Agreement with the Paducah-McCracken County Riverport Authority (Riverport) to enable Riverport to purchase real property located at 2308 South 4th Street, Paducah, Kentucky for the purpose of economic development along the Ohio and Tennessee Rivers.

In order to accomplish such development, the City and County determined it necessary to provide financing to Riverport to enable Riverport to purchase the property. As part of the original agreement, Riverport was to own the property and maintain it and promote its use for economic development along the river. The City, County, and Riverport were to contribute \$400,000 each toward the purchase price, with Riverport repaying the contributions of the City and County over a fixed term.

On December 17, 2007, the County approved the first amendment to the Interlocal Cooperative Agreement, forgiving \$33,333 of the indebtedness owed by Riverport to the County. The amended debt amount of \$366,667 was to be repaid by one payment of \$46,667 due on or before December 1, 2008, and four successive annual installments of \$80,000 commencing on December 1, 2008, with a like installment payment to be due and payable on the 1st day of December of each successive year, the final installment of principal due on December 1, 2011.

As of June 30, 2008, the Riverport Authority was in compliance with the agreement, with an outstanding balance of \$320,000.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 6. Note Receivables (Continued)

B. Greater Paducah Economic Development Council

On September 18, 2007, the City of Paducah and McCracken County entered into a financing agreement with the Greater Paducah Economic Development Council (GPEDC) for the acquisition of property. As part of the agreement, the GPEDC executed and delivered to the County an interest free promissory note in the amount of \$600,000 for one half of the financing. The entire principal amount of the note was due and payable on March 17, 2008, however, the fiscal court voted March 24, 2008, and again on September 22, 2008, to extend the life of the note, making it due on March 1, 2009.

Note 7. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 33.87 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

On November 9, 1982, the McCracken County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 9. Insurance

For the fiscal year ended June 30, 2008, McCracken County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Prior Period Adjustments

Beginning net assets of governmental activities and business-type activities have been restated by \$926,427 and \$38,453 respectively as shown below. The beginning balances of the General Fund, Sheriff Fund, and Federal Grants Fund were restated for prior year voided checks. Other adjustments were made to the beginning balances of the General Fund, State Grants Fund, and Federal Grants Fund.

	Governmental Activities	Business-Type Activities
Beginning net assets at June 30, 2007	\$ 46,355,943	\$ 38,453
Cash balance of Governmental Activities previously reported as Business-Type Activities	24,441	(24,441)
Adjustment to beginning cash balance	(9,923)	
Cash balance of Governmental Activities previously reported as Fiduciary Fund	134,625	
Prior year voided checks	19,025	
Prior year accounts receivable	(5,663,667)	
Prior year donated land	(336,350)	
Prior year accounts payable	418,257	
Prior year matured interest outstanding	96,116	
Prior year accrued payroll and related expenses	116,864	
Prior year deferred revenue	3,976,707	
Prior year landfill post-closure costs	2,062,500	
Prior year accrued compensated absences	326,134	
Adjustment to increase capital asset beginning balance for assets excluded in previous year	13,900	
Adjustment to decrease capital asset beginning balance for disposed assets included in the previous year	(14,154)	
Adjustment to prior year accumulated depreciation	3,117	
Capital Assets of Governmental Activities previously reported as Business-Type Activities	14,012	(14,012)
Adjustment to prior year note receivable balance	295,000	
Adjustment to prior year outstanding bonds	(495,427)	
Adjustment to prior year notes payable balance	(54,750)	
	<u>\$ 47,282,370</u>	<u>\$ 0</u>

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 11. Landfill Closure and Post-Closure Costs

The County landfill closed to the public on June 30, 1995. The County must comply with established state and federal landfill closure and post-closure procedures and must perform maintenance and monitoring at the site for thirty years after closure. The 30-year period will begin upon approval from the Commonwealth of Kentucky regarding the environmental condition of the landfill site. As of June 30, 2008, final approval of the closure had not yet been granted. Closure costs for FYE 6-30-08 were \$74,361. In May, 2008, the City of Paducah reimbursed the County \$47,498 for its share of landfill expenses paid from May 2007 through April 2008.

Estimated post-closure care costs total \$4,125,000 or \$125,000 per year plus 10 percent for inflation. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

McCracken County prepares required financial statements on the modified cash basis of accounting in accordance with the laws of Kentucky, therefore no liability has been recognized for the closure or post-closure care costs. State and federal laws and regulations require for the fiscal court to provide financial assurance that landfill closure and post-closure care costs are properly funded. In order to meet financial assurance requirements, the Fiscal Court entered into an inter-local agreement with the City of Paducah, Kentucky to share equally the post closure costs. The City of Paducah, Kentucky will reimburse the County annually for its share of closure costs incurred during the fiscal year.

Note 12. Estimated Infrastructure Historical Cost

Historical cost of infrastructure placed in service prior to the fiscal year ended June 30, 2003 (year of GASB 34 implementation) is an estimate. For those assets, the primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. The estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Infrastructure placed in service during the fiscal year ended June 30, 2003 and thereafter is recorded at historical cost.

Note 13. Interfund Transfers

Interfund transfers for the year ended June 30, 2008 are comprised of the following:

<u>Governmental Activities</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net</u>
General Fund	\$ 162,489	\$ 6,364,251	\$ (6,201,762)
Road Fund	913,915		913,915
Jail Fund	3,516,967		3,516,967
Sheriff Fund	1,462,806		1,462,806
Debt Service Fund	270,476		270,476
State Grants Fund	45,728	25,434	20,294
Juvenile Justice Fund	154,359		154,359
Total Governmental Funds	<u>\$ 6,526,740</u>	<u>\$ 6,389,685</u>	<u>\$ 137,055</u>
<u>Fiduciary Funds</u>			
Unclaimed Monies Fund	<u>\$</u>	<u>\$ 137,055</u>	<u>\$ (137,055)</u>

MCCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008
(Continued)

Note 14. Subsequent Event

February 23, 2009, the McCracken County Fiscal Court (County) approved entering into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$5,000,000 in order to finance the renovation of the Julian Carroll Convention Center. On that date, the County also entered into an Interlocal Cooperation Agreement with the City of Paducah (City), Kentucky, whereby the City would pay fifty percent of the annual debt service, including costs of issuance, credit enhancers, and similar ancillary costs until the debt is retired.

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MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2008

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 8,968,917	\$ 8,968,917	\$ 10,855,044	\$ 1,886,127
In Lieu Tax Payments	820,000	820,000	1,020,991	200,991
Excess Fees	57,000	57,000	397,371	340,371
Licenses and Permits	364,500	364,500	397,118	32,618
Intergovernmental Revenue	1,362,000	1,362,000	1,180,949	(181,051)
Charges for Services	45,000	45,000	25,093	(19,907)
Miscellaneous	410,000	410,000	699,959	289,959
Interest	220,000	220,000	266,832	46,832
Total Revenues	<u>\$ 12,247,417</u>	<u>\$ 12,247,417</u>	<u>\$ 14,843,357</u>	<u>\$ 2,595,940</u>
EXPENDITURES				
General Government	3,237,659	3,769,653	3,460,917	308,736
Protection to Persons and Property	931,968	964,683	820,342	144,341
General Health and Sanitation	291,570	291,570	248,071	43,499
Social Services	65,000	126,076	126,075	1
Recreation and Culture	206,360	207,560	174,142	33,418
Bus Services	62,000	62,000	62,000	
Debt Service			388,486	(388,486)
Administration	2,433,456	2,239,247	2,141,517	97,730
Total Expenditures	<u>\$ 7,228,013</u>	<u>\$ 7,660,789</u>	<u>\$ 7,421,550</u>	<u>\$ 239,239</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>5,019,404</u>	<u>4,586,628</u>	<u>7,421,807</u>	<u>2,835,179</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	(7,219,404)	(7,723,112)	(6,364,251)	1,358,861
Transfers In			162,489	162,489
	<u>\$ (7,219,404)</u>	<u>\$ (7,723,112)</u>	<u>\$ (6,201,762)</u>	<u>\$ 1,521,350</u>
Net Changes in Fund Balance	(2,200,000)	(3,136,484)	1,220,045	4,356,529
Fund Balance - Beginning	<u>2,200,000</u>	<u>3,303,708</u>	<u>6,589,725</u>	<u>3,286,017</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 167,224</u>	<u>\$ 7,809,770</u>	<u>\$ 7,642,546</u>

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,239,937	\$ 1,239,937	\$ 1,453,072	\$ 213,135
Miscellaneous	1,000	1,000	8,400	7,400
Total Revenues	<u>\$ 1,240,937</u>	<u>\$ 1,240,937</u>	<u>\$ 1,461,472</u>	<u>\$ 220,535</u>
EXPENDITURES				
Roads	2,696,095	2,199,702	2,008,619	191,083
Debt Service			177,595	(177,595)
Administration	413,540	413,540	369,720	43,820
Total Expenditures	<u>\$ 3,109,635</u>	<u>\$ 2,613,242</u>	<u>\$ 2,555,934</u>	<u>\$ 57,308</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,868,698)</u>	<u>(1,372,305)</u>	<u>(1,094,462)</u>	<u>277,843</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	1,868,698	1,868,698	913,915	(954,783)
	<u>\$ 1,868,698</u>	<u>\$ 1,868,698</u>	<u>\$ 913,915</u>	<u>\$ (954,783)</u>
Net Changes in Fund Balance		496,393	(180,547)	(676,940)
Fund Balance - Beginning			180,547	180,547
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 496,393</u>	<u>\$ 0</u>	<u>\$ (496,393)</u>

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,959,000	\$ 1,959,000	\$ 2,157,622	\$ 198,622
Charges for Services	235,000	235,000	243,350	8,350
Miscellaneous	339,000	339,000	337,255	(1,745)
Total Revenues	\$ 2,533,000	\$ 2,533,000	\$ 2,738,227	\$ 205,227
EXPENDITURES				
Protection to Persons and Property	3,920,137	4,680,205	4,496,687	183,518
Debt Service			375,471	(375,471)
Administration	1,394,199	1,396,901	1,385,475	11,426
Total Expenditures	\$ 5,314,336	\$ 6,077,106	\$ 6,257,633	\$ (180,527)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	(2,781,336)	(3,544,106)	(3,519,406)	24,700
OTHER FINANCING SOURCES (USES)				
Transfers In	2,781,336	2,781,336	3,516,967	735,631
	\$ 2,781,336	\$ 2,781,336	\$ 3,516,967	\$ 735,631
Net Changes in Fund Balance				
		(762,770)	(2,439)	760,331
Fund Balance - Beginning			2,439	2,439
Fund Balance - Ending	\$ 0	\$ (762,770)	\$ 0	\$ 762,770

MCCRACKEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2008
(Continued)

SHERIFF FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,426,000	\$ 1,426,000	\$ 1,542,643	\$ 116,643
Miscellaneous	1,000	1,000	6,378	5,378
Total Revenues	<u>\$ 1,427,000</u>	<u>\$ 1,427,000</u>	<u>\$ 1,549,021</u>	<u>\$ 122,021</u>
EXPENDITURES				
General Government	1,952,065	1,987,103	1,965,660	21,443
Administration	1,104,783	1,080,814	1,046,197	34,617
Total Expenditures	<u>\$ 3,056,848</u>	<u>\$ 3,067,917</u>	<u>\$ 3,011,857</u>	<u>\$ 56,060</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,629,848)</u>	<u>(1,640,917)</u>	<u>(1,462,836)</u>	<u>178,081</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	1,629,848	1,629,848	1,462,806	(167,042)
	<u>\$ 1,629,848</u>	<u>\$ 1,629,848</u>	<u>\$ 1,462,806</u>	<u>\$ (167,042)</u>
Net Changes in Fund Balance		(11,069)	(30)	11,039
Fund Balance - Beginning			30	30
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (11,069)</u>	<u>\$ 0</u>	<u>\$ 11,069</u>

MCCRACKEN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2008

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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MCCRACKEN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2008

MCCRACKEN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2008

	LGEA Fund	State Grants Fund	Federal Grants Fund	Juvenile Justice Fund
ASSETS				
Cash and Cash Equivalents	\$ 6,336	\$ 16,296	\$ 164,772	\$
Total Assets	<u>6,336</u>	<u>16,296</u>	<u>164,772</u>	<u></u>
FUND BALANCES				
Reserved for:				
Encumbrances		14,635		
Unreserved:				
Special Revenue Funds	6,336	1,661	164,772	
Debt Service Fund				
Total Fund Balances	<u>\$ 6,336</u>	<u>\$ 16,296</u>	<u>\$ 164,772</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

MCCRACKEN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2008
(Continued)

Transient Room Tax Fund	Jail Commissary Fund	Total Non-Major Funds
<u>\$ 198,596</u>	<u>\$ 28,537</u>	<u>\$ 414,537</u>
<u>198,596</u>	<u>28,537</u>	<u>414,537</u>
		14,635
198,596	28,537	201,306
<u>\$ 198,596</u>	<u>\$ 28,537</u>	<u>\$ 414,537</u>

The accompanying notes are an integral part of the financial statements.

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MCCRACKEN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2008

MCCRACKEN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2008

	LGEA Fund	State Grants Fund	Federal Grants Fund	Juvenile Justice Fund
REVENUES				
Taxes	\$	\$	\$	\$
Intergovernmental	5,653	241,868	245,457	
Miscellaneous				
Interest				
Total Revenues	<u>5,653</u>	<u>241,868</u>	<u>245,457</u>	
EXPENDITURES				
Protection to Persons and Property			5,525	154,359
Social Services		1,094,468		
Recreation and Culture				
Capital Projects			<u>139,672</u>	
Total Expenditures		<u>1,094,468</u>	<u>145,197</u>	<u>154,359</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>5,653</u>	<u>(852,600)</u>	<u>100,260</u>	<u>(154,359)</u>
Other Financing Sources (Uses)				
Transfers Out		(25,434)		
Transfers In		<u>45,728</u>		<u>154,359</u>
Total Other Financing Sources (Uses)		<u>20,294</u>		<u>154,359</u>
Net Change in Fund Balances	5,653	(832,306)	100,260	
Fund Balances - Beginning (Restated)	<u>683</u>	<u>848,602</u>	<u>64,512</u>	
Fund Balances - Ending	<u>\$ 6,336</u>	<u>\$ 16,296</u>	<u>\$ 164,772</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

MCCRACKEN COUNTY

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

Other Supplementary Information

For The Year Ended June 30, 2008

(Continued)

Transient Room Tax Fund	Jail Commissary Fund	Total Non-Major Governmental Funds
\$ 1,557,615	\$	\$ 1,557,615
		492,978
	43,220	43,220
1,248	95	1,343
1,558,863	43,315	2,095,156
		159,884
	36,198	1,130,666
1,549,780		1,549,780
		139,672
1,549,780	36,198	2,980,002
9,083	7,117	(884,846)
		(25,434)
		200,087
		174,653
9,083	7,117	(710,193)
189,513	21,420	1,124,730
\$ 198,596	\$ 28,537	\$ 414,537

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Van Newberry, McCracken County Judge/Executive
Members of the McCracken County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of McCracken County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements and have issued our report thereon dated June 2, 2009. McCracken County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered McCracken County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of McCracken County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of McCracken County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying comments and recommendations as items 2008-01, 2008-02, 2008-03, 2008-04, and 2008-05 to be significant deficiencies in internal control over financial reporting:



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether McCracken County Fiscal Court's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item: 2008-06.

The McCracken County Judge/Executive's responses and the McCracken County Jailer's responses to the findings identified in our audit are included in the accompanying of comments and recommendations. We did not audit their responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accountants

June 2, 2009

**MCCRACKEN COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2008

**MCCRACKEN COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2008

SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

2008-01 Internal Controls Over Expenditures Should Be Strengthened

Review of internal control procedures, along with audit testing, revealed significant deficiencies in internal controls over expenditures. Our review of expenditures and claims revealed some expenditures were made without a properly executed purchase request. We noted expenditures that were made without documentation of proper approval or supporting documentation and also, credit card charges that were paid twice.

Strong internal controls over expenditures are essential to ensure that all expenditures are properly authorized. They also ensure expenditures are accurately reported in the County's financial statements.

Because of this, we recommend the County strengthen its internal control procedures over expenditures. Recommended controls include: documentation of proper approval including a properly executed purchase request, proper support for expenditures including detailed receipts, and the cancellation of paid invoices. The implementation of such controls will protect the County against any ill-advised purchases as well as assist in accurate financial reporting.

County Judge/Executive Van Newberry's Response: The Finance Office requires all invoices turned over for payment be signed off on by the department heads. This should meet the auditor's recommendation of "properly executed purchase requests".

2008-02 Expenditures Should Be Made In Accordance with the County's Procurement Policy

Audit testing of expenditures revealed expenditures were not being made in accordance with the County's procurement policy. According to the County's procurement standards, procurements should be made by one of the following methods:

- A. Small Purchases – Purchases of supplies, equipment, and services, which cost between \$200 and \$10,000 require written estimates but no legal advertisement is required. The County will solicit written responses from at least three vendors. Purchases that cost between \$50 and \$200 require three over-the-telephone quotations of rate, price, etc. For purchases of less than \$50, efforts will be made to get the lowest and best price.
- B. Competitive Sealed Bids – When the cost of a contract, lease, or other agreement for materials, supplies, equipment, or contractual services other than those personal or professional exceeds \$10,000, an invitation for bids (IFB) notice will generally be prepared.
- C. Competitive Negotiations – The County will utilize competitive negotiations, regardless of contract amount, upon a written determination that: (a) specifications cannot be made specific enough to permit the award of a bid on the basis of either the lowest bid price or the lowest evaluated bid price, (b) the services to be procured are professional or personal in nature.

MCCRACKEN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2008
(Continued)

SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES (Continued):

2008-02 Expenditures Should Be Made In Accordance with the County's Procurement Policy
 (Continued)

- D. Non-competitive Negotiations – Non-competitive negotiations may be used for procurements in excess of \$10,000 when bidding or competitive negotiations are not feasible. The County may purchase goods and services through non-competitive negotiations when it is determined in writing by the Judge Executive that competitive negotiation or bidding is not feasible and that: (a) an emergency exists, which will cause the public harm as a result of the delay caused by following competitive purchasing procedures; (b) the product or service can be obtained only from one source; (c) the contract is for the purchase of perishable items purchased on a weekly or more frequent basis; (d) only one satisfactory proposal is received through competitive negotiations; or (e) the State has authorized the particular type of non-competitive negotiation.

We recommend the County follow the procedures outlined in its procurement standards. Should the Fiscal Court determine it necessary to amend its procurement standards, we recommend changes be made and the County abide by the amended standards.

County Judge/Executive Van Newberry's Response: Future expenditures will follow the procedures outlined in the procurement policy. If necessary the county will amend the policy. The small purchases of expenditures between \$200 and \$10,000 may require attention to enable the departments more flexibility on smaller purchases.

2008-03 McCracken County Fiscal Court Should Strengthen Internal Controls Over The Financial Reporting Of Capital Assets And Infrastructure

Material weaknesses exist over the reporting of capital assets and infrastructure of McCracken County. Capital assets records were incomplete as to county assets, depreciation amounts, accumulated depreciation amounts, and current year disposals.

Strong internal controls over capital assets are necessary to ensure accurate financial reporting as well as protect assets from misappropriation.

In order to strengthen the county's internal controls over capital assets and infrastructure, we recommend the county establish a detailed inventory system. This system should include a detailed description of the asset, an inventory control number or serial number, the date acquired, location, date destroyed or sold as surplus, and a brief description of why the asset was discarded. The inventory of county assets should be updated throughout the year as new assets are purchased. The inventory should also be updated as to annual depreciation and accumulated depreciation amounts and current year disposals. We also recommend the county conduct a physical inspection of the county's assets at the end of each year to make comparisons to the county's list of inventoried assets.

County Judge/Executive Van Newberry's Response: The Finance Office, as recommended by the state auditors, is compiling the financial reporting of capital assets and infrastructure. This is being done with a coordinating effort from department heads and elected officials. The report will be updated annually and physical inspections by all departments will be reported to the Finance Office in order to keep records current.

MCCRACKEN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2008
(Continued)

SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES (Continued):

2008-04 The McCracken County Detention Center Had A Lack Of Segregation Of Duties Over Jail Commissary Accounting Functions

During a review of jail operations, we noted a lack of segregation of duties over the jail operations accounting functions and jail commissary accounting functions. The administrative assistant collected receipts for inmate fees, prepared deposits, made deposits, prepared monthly reports, remitted monthly reports and inmate fees to the county treasurer and reconciled the commissary bank account. There were no compensating controls noted to offset this lack of segregation of duties.

Segregation of duties over the collection of receipts, deposit preparation, bank reconciliations, and other accounting functions or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against the misappropriation of assets, we recommend the Jailer separate the duties of collecting receipts, deposit preparation, bank reconciliations, and other accounting functions. If these duties cannot be separated due to a limited staff, then strong oversight should be provided to the employee or employees responsible for these duties.

County Jailer Bill Adam's Response: All monies are counted by a minimum of two personnel and all accounts are reconciled by two personnel.

2008-05 Internal Controls Over Jail Receipts Should Be Strengthened

Review of internal control procedures, along with audit testing, revealed material weaknesses in internal controls over jail receipts. Our review of jail receipts revealed deposits were not being made on a daily basis. We also noted daily checkout procedures, including accounting for the numerical sequence of receipt forms, were not being utilized.

Strong internal controls over jail receipts are essential to protect assets from misappropriation or fraud. Strong internal controls also facilitate accurate financial reporting as well as protect employees during the normal course of their duties.

Because of this, we recommend the Jailer strengthen its internal control procedures over jail receipts. Recommended controls include making daily deposits and implementing daily checkout procedures, whereby the Jailer or a designee accounts for the numerical sequence of issued receipt forms. The implementation of such controls will not only help protect jail assets but also jail employees.

County Jailer Bill Adam's Response: This control procedure has been implemented.

MCCRACKEN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2008
(Continued)

STATE LAWS AND REGULATIONS:

2008-06 Expense Allowances Are Prohibited By Statute

On July 16, 2007, the McCracken County Fiscal Court voted to pay each Road Department employee a \$200 boot allowance to be paid on the fourth payday in July. According to state statute, such an expense allowance is not allowable and is expressly prohibited. KRS 64.710 states "No public officer or employee shall receive or be allowed or paid any lump sum expense allowance, or contingent fund for personal or official expense, except where such allowance or fund either is expressly provided for by statute or is specifically appropriated by the General Assembly." We are currently unaware of any statute providing for a boot allowance to county road department employees, or of any specific appropriation by the General Assembly for this purpose. Therefore, such an allowance is prohibited by law and a violation of the state statute. We recommend the County comply with KRS 64.710 by eliminating such allowances.

County Judge Executive Van Newberry's Response: Boot allowance being paid per union contract.

Auditor's Reply: Based on the Judge's response, the county may want to ask the County Attorney to review union contracts for compliance with KRS 64.710. Additionally, the county could consider reimbursing road department employee's actual cost of boot purchases up to \$200 when provided with appropriate supporting documentation.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

MCCRACKEN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2008**

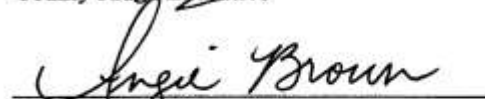
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MCCRACKEN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2008

The McCracken County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer

